

Alaskan Oil Exportsfile
EPC 12 Aug 88

Purpose: To provide background information and talking points on Alaskan oil export potential; the legislative status of Alaskan oil exports; and DOE analysis of the Alaskan oil export issue.

U.S. Objective: To provide a status report on legislation affecting U.S. crude oil exports and determine the degree of Korean interest in imports of Alaskan crude oil should restrictions be relaxed at some future date.

Korean Objective: To determine the status of prospects for elimination of legislative restrictions on Alaskan crude exports.

Background Discussion:Alaskan Oil Resources/Production

Current estimates of proven oil reserves in Alaska are 7.3 billion barrels (about 118 million barrels are in Cook Inlet), and undiscovered reserves are estimated at 19.1 billion barrels, for a total potential of 26.4 billion barrels. Alaskan oil production is currently 1.7 million barrels per day (MMBD) (1.6 MMBD on the North Slope and 70,000 B/D in Cook Inlet). Alaskan oil production is expected to remain in the 1.7-1.8 MMBD range through the year 2000 as production from new fields offsets declines in production from existing fields. Currently, approximately one-half of Alaskan oil is shipped to the West Coast and the remainder to Gulf and East Coast Markets. Approximately 40 percent of the domestic tanker fleet and 70 percent of domestic tanker capacity is engaged in this trade.

Almost all of the Cook Inlet oil is used in the Tesoro refinery which is located in Alaska and in a San Francisco refinery owned by Union Oil. Tesoro is currently upgrading its refinery to process Alaskan North Slope crude oil. As a result of the modification some 15,000 to 30,000 BD of Cook Inlet crude is likely to be available for export. Both Korea and Japan have expressed strong interest in buying the oil.

Legislative Restrictions on U.S. Oil Exports

Exports of petroleum from the United States have been controlled since shortly after the start of the Arab Oil Embargo of 1973. Restrictions on exports of refined petroleum products were relaxed significantly in 1981. Further relaxation of procedures for exporting refined products will be occurring resulting from the recent passage of the Export Administration Act. Under the Act, the mandated licensing procedure is rescinded except if there is a Presidential finding of a short supply. Crude oil exports, however, remain controlled (there being only limited exceptions, and only for non-Alaskan North Slope oil), even

though the controls were relaxed recently for crude oil exports to Canada. The President lifted these restrictions based on a finding that such exports are in the national interest; exports still will require licenses, and the exported oil must be for consumption in Canada.

The Arab oil embargo occurred during efforts to build an oil pipeline across Alaska. When a court decision necessitated new legislation authorizing a right-of-way for this pipeline, the concern that West Coast surpluses of Alaskan North Slope oil delivered through such a pipeline might result in exports to East Asia rather than domestic delivery of this oil, led to the adoption of export restrictions by Congress. Subsequent legislation further tightened the controls on exports of Alaskan North Slope oil.

Today, a plethora of statutes and regulations exist with respect to various kinds of crude oil exports (see figure 1). Of all possible crude oil exports, Alaskan North Slope oil is far and away the most tightly regulated (see figure 2). Existing law makes it virtually impossible to export Alaskan North Slope oil (except possibly in swaps with Canada, and then only under narrow conditions) because of the statutory requirements of a Presidential finding that within three months an equal amount of imports received in exchange for the exported Alaskan North Slope oil will lower U.S.-refiner acquisition costs, and that 75 percent of those savings will be reflected in wholesale and retail prices of the resulting products.

Lifting export restrictions on Cook Inlet crude oil is not as ominous. Export of Cook Inlet oil is subject only to the Energy Policy and Conservation Act. Under this Act, if the President or the Secretary of Commerce finds that such exports are in the national interest then these exports would be permitted by amending the Department of Commerce export regulations.

Current Status of the Export Administration Act

The Export Administration Act which had expired on March 31, 1984, was finally passed and signed in July 1985. As mentioned previously, under the current Act the licensing procedure for exporting refined products is being rescinded. The Act also calls for a study on the impact of exports of Alaskan North Slope oil. Congress stipulated that the study be completed within nine months after the enactment of this Act (by April 1986).

Administration Review of Oil Export Restrictions

In the spring of 1982, the Senior Interdepartmental Group on International Economic Policy (SIG-IEP) concluded an interagency review of the impact of removing or relaxing restrictions on the

export of Alaskan oil. Congressional hearings on Alaskan exports were also held around this time. The SIG-IEP review led to an interagency consensus that there would be sizeable net economic benefits derived from lifting export restrictions, but also some important costs.

Potential benefits which were identified included: economic efficiency gains due to the substantial savings in transportation costs now incurred in shipping Alaskan oil to Gulf/East Coast Markets; possible increased investment in U.S. oil development; revenue gains to the Federal and Alaskan State Governments; and enhancement of foreign policy objectives and U.S. free market goals.

Potential costs included: idling of tankers, lower employment in the maritime industry, a reduction in the availability of militarily-useful tankers for defense (due to idling and scrapping of tankers dedicated to Alaskan trade) and federal outlays to cover federally-guaranteed loan defaults on some tankers.

In view of these costs, some agencies strongly opposed any lifting of export restrictions. This opposition, in addition to the stiff potential opposition in the Congress, among interest groups, and on the part of some North Slope producers which have invested heavily in tankers and pipelines to bring Alaskan North Slope oil to the lower-48 markets, led the SIG-IEP to decide that it would not be worthwhile at this time to seek a legislative provision to allow limited Alaskan oil exports. Instead, it was decided that the Administration would seek to educate the Congress to the potential benefits of lifting these restrictions.

Prospects for exporting North Slope crude are not good at present. It is hoped these prospects will improve when the study on Alaskan crude exports is delivered to Congress next year. However, obtaining the necessary changes in law to permit exports will still be a difficult task. Currently the Administration is considering the possibility of lifting restrictions on exports of Alaskan Cook Inlet crude oil which would only require a Presidential finding under the Energy Policy and Conservation Act. The amount of oil which would be available for export is relatively small, some 15,000 to 30,000 barrels per day.

Talking Points

- ° I know that your country has in the past expressed considerable interest in the possibility of importing crude oil from Alaska if legislative restrictions prohibiting such exports were removed.

- There are numerous U.S. laws which currently restrict exports of crude oil from the U.S.
- We remain committed in the U.S. Administration to keeping these restrictions under close review. The opposition of the U.S. Congress and various U.S. interest groups makes the prospects for any removal or relaxation of these restrictions difficult.

Prepared by: L. Ekimoff:252-6159:8/12/85
Cleared: DOE/IE:SRandolph
DOE/IE:JBrodman
DOE/IE:DPumphrey
DOE/GC:CBamberger
DOE/IE:BBonk
DOS/EB:DSerwer
DOS/EB:RParson
DOS/EB:EMelby
DOC:JYancik